BLUE RIDGE SPAIN

Jeanne M. McNett prepared this case under the supervision of David Wesley and Professors Nicholas Athanassiou and Henry W. Lane solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

Yannis Costas, European managing director of Blue Ridge Restaurants, found it difficult to control the anger welling up inside him as he left the meeting with the company's regional vice-president (VP) earlier in the day. That evening, he began to reflect on the day's events in the relative peace of his London flat. "Ten years work gone down the drain," he thought to himself, shaking his head. "What a waste!"

Costas recalled the many years he had spent fostering a successful joint venture between his company, Blue Ridge Restaurants Corporation, and Terralumen S.A., a mid-sized family-owned company in Spain. Not only had the joint venture been profitable, but it had grown at a reasonably brisk pace in recent years. Without a doubt, partnering with Terralumen was a key reason for Blue Ridge's success in Spain. Therefore, Costas was somewhat dismayed to find out that Delta Foods Corporation, Blue Ridge's new owner, wanted out. Yes, there had been recent tension between Terralumen and Delta over future rates of growth (see Exhibits 2 and 3), but the most recent round of talks had ended in an amicable compromise — he thought. Besides, Delta's senior managers should have realized that their growth targets were unrealistic.

They had gone over the arguments several times, and Costas tried every angle to convince his superiors to stick with the joint venture, but to no avail. To make matters worse, Costas had just been assigned the unpleasant task of developing a dissolution strategy for the company he had worked so hard to build.

BLUE RIDGE RESTAURANTS CORPORATION

Blue Ridge was founded in Virginia in 1959, and quickly established a reputation for quality fast food. In 1974, after establishing more than 500 food outlets in the United States and Canada, Blue Ridge was sold to an investment group for US$4 million.

Over the next five years, the company experienced sales growth of 96 per cent annually. However, international sales were haphazard and there was no visible international strategy. Instead, whenever a foreign restauranteur wanted to begin a Blue Ridge franchise, the foreign company would simply approach Blue Ridge headquarters with the request. As long as the franchise delivered royalties, there was little concern for maintaining product consistency or quality control in foreign markets.

In 1981, Blue Ridge was acquired by an international beverages company for US$420 million. Under new ownership, the company made its first major foray into international markets, and international operations were merged with the parent company's existing international beverage products under a new international division.

The strategy at the time was to enter into joint ventures with local partners, thereby allowing Blue Ridge to enter restricted markets and draw on local expertise, capital and labor. Partnering also significantly reduced the capital costs of opening new stores. The strategy of local partnering combined with Blue Ridge's marketing know-how and operations expertise, quickly paid off in Australia, Southeast Asia and the United Kingdom, where booming sales led to rapid international expansion.

On the other hand, there were some glaring failures. By 1987, Blue Ridge decided to pull out of France, Italy, Brazil and Hong Kong where infrastructure problems and slow consumer acceptance resulted in poor performance. Some managers, who had been accustomed to high margins and short lead times in their alcoholic beverages division, did not have the patience for the long and difficult road to develop these markets and would tolerate only those ventures that showed quick results.

These early years of international expansion provided important learning opportunities as more managers gained a personal understanding of the key strategic factors behind successful foreign entry. The success of the company's international expansion efforts helped Blue Ridge become the company's fastest growing division. When Blue Ridge was sold to Delta Foods in 1996 for US$2 billion, it was one of the largest fast-food chains in the world and generated sales of US$6.8 billion.

Delta was a leading soft drink and snack food company in the United States, but at the time of the Blue Ridge acquisition, it had not achieved significant success internationally. It had managed to establish a dominant market share in a small number of countries with protected markets in which its main competitors were shut out. For example, one competitor was shut out of many Arabic countries after deciding to set up operations in Israel.

The company's senior managers disliked joint ventures, in part because they were time-consuming, but also because they were viewed as a poor way to develop new markets. Delta was an aggressive growth company with brands that many believed were strong enough to support entry into new overseas markets without the assistance of local partners. When needed, the company either hired local managers directly or transferred seasoned managers from the soft drink and snack food divisions.

Delta also achieved international growth by directly acquiring local companies. For example, in the late 1990s, Delta acquired the largest snack food companies in Spain and the United Kingdom. However, given that joint ventures had been the predominant strategy for Blue Ridge, and that some countries, such as China, required local partnering, Delta had no choice but to work with joint venture partners.

YANNIS COSTAS

Yannis Costas was an American-educated Greek who held degrees in engineering and business (MBA) from leading U.S. colleges. Although college life in a foreign country had its challenges, it afforded him an opportunity to develop an appreciation and understanding of American culture and business practices. Therefore, upon completing his MBA, Costas turned-down several offers of employment from leading multinational corporations that wanted him to take management positions in his native country. Such positions, however appealing they may have been at the time, would have doomed him to a career as a local manager, he thought. He chose instead to accept a position in international auditing at Blue Ridge headquarters in Virginia, mainly because of the opportunity for extended foreign travel.

The transition from university to corporate life was a difficult one. Social life seemed to revolve around couples and families, both at Blue Ridge and in the larger community. Although Costas met some single women from the local Greek community, his heavy travel schedule prevented him from establishing any meaningful relationships. Instead, he immersed himself in his work as a way to reduce the general feeling of isolation.

Costas was fortunate to have an office next to Gene Bennett, the company's director of business development. Bennett had served as a lieutenant in the U.S. Navy before working in the pharmaceutical industry setting up joint ventures in Latin America and Europe. He was hired by Blue Ridge specifically to develop international joint ventures. As Costas' informal mentor, Bennett passed on many of the lessons Costas would come to draw on later in his career.

It was at the urging of Bennett that Costas applied for a transfer to the international division in 1985. Three years later, Costas was asked to relocate to London, England, in order to take on the role of European regional director for Blue Ridge. In this position, he became responsible for joint ventures and franchises in Germany, the Netherlands, Spain, Northern Ireland, Denmark, Sweden and Iceland.

In 1993, Costas was transferred to Singapore where, under the direction of the president of Blue Ridge Asia,[1] he advanced in his understanding of joint ventures, market entry and teamwork. Over the next five years, Costas built a highly productive management team and successfully developed several Asian markets. He was eager to apply these new skills when he returned to London in 1998 to once again take up the role of European director (see Exhibit 1 for a summary of Costas' career).

THE SPANISH DECISION

When the decision was first made to enter the Spanish market, Bennett was sent overseas to meet with real estate developers, construction companies, retail distributors, agribusiness companies, lawyers, accountants and consumer product manufacturers in order to gather the preliminary knowledge needed for such an undertaking. Bennett soon realized that Blue Ridge would need a credible Spanish partner to navigate that country's complex real estate and labor markets.

Few Spaniards among Bennett's peer generation spoke English. However, Bennett had a basic knowledge of Spanish, a language that he had studied in college, and this helped open some doors that were otherwise shut for many of his American colleagues. Still, Bennett knew that finding a suitable partner would be difficult, since Spaniards frequently appeared to distrust foreigners. The attitude of one investment banker from Madrid was typical:

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[1] *At the time, Blue Ridge Asia was one of the company's most successful operations with nearly 800 restaurants in Singapore, Malaysia, Taiwan and Thailand.*

> Many Spaniards do not want to eat strange-tasting, comparatively expensive American food out of paper bags in an impersonal environment. We have plenty of restaurants with good inexpensive food, a cozy atmosphere and personal service, and our restaurants give you time to enjoy your food in pleasant company. Besides, we don't even really know you. You come here for a few days, we have enjoyable dinners, I learn to like you, and then you leave. What kind of relationship is that?

Luckily, Bennett had a banker friend in Barcelona who recommended that he consider partnering with Terralumen.

TERRALUMEN S. A.

Terralumen was a family-owned agricultural company that had later expanded into consumer products. In doing so, Terralumen entered into several joint ventures with leading American companies. In recent years, Terralumen had also begun to experiment with the concept of establishing full-service restaurants.

Bennett was introduced to Francisco Alvarez, Terralumen's group vice-president in charge of restaurant operations and the most senior non-family member in the company. In time, Bennett had many opportunities to become well acquainted with Terralumen and its managers. On weekends he stayed at Alvarez's country home, attended family gatherings in Barcelona and had family members visit him in Virginia. Over the span of their negotiations, Bennett and Alvarez developed a solid friendship, and Bennett began to believe that Terralumen had the type of vision needed to be a successful joint venture partner.

After two years of negotiations, Blue Ridge entered into a joint venture with Terralumen to establish a Blue Ridge restaurant chain in Spain. Upon returning to Virginia, Bennett could not hold back his euphoria as he related to Costas the details of what he considered to be the most difficult joint venture he had ever negotiated.

BLUE RIDGE SPAIN

Alvarez hired Eduardo Rodrigo to head up the joint venture as its managing director. An accountant by trade, Rodrigo was a refined and personable man who valued his late afternoon tennis with his wife and was a professor at a university in Barcelona. He also spoke fluent English.

Before assuming his new role, Rodrigo and another manager went to Virginia to attend a five-week basic training course. Upon his return, Rodrigo's eye for detail became quickly apparent as he mastered Blue Ridge's administrative and operating policies and procedures. He knew every detail of the first few stores' operating processes and had an equally detailed grasp of each store's trading profile. As a result, Blue Ridge Spain began to show an early profit.

Profitability was one thing; growth was another. Although the Blue Ridge concept seemed to be well received by Spanish consumers, Rodrigo was cautious and avoided rapid expansion. Moreover, one of the most important markets in Spain was Madrid. Rodrigo, who was Catalan,[2] was not fond of that city and avoided travelling to Madrid whenever possible. As personal contact with real estate agents, suppliers and others was necessary to develop new stores, Blue Ridge's expansion efforts remained confined to the Barcelona area. Terralumen, becoming impatient with Blue Ridge's sluggish growth, decided to focus more resources on its consumer product divisions and less on the restaurant business.

For Costas, one of the challenges during his first assignment as European director was to convince Terralumen to focus more on the joint venture and support faster growth. Rodrigo positively opposed more rapid growth, even though Alvarez, his direct superior, voiced support for the idea. Although he had been very cordial in his interactions with his American counterparts, Rodrigo believed himself to be in a much better position to judge whether or not the Spanish market would support faster growth.

In 1993, shortly after Costas was transferred to Singapore, Blue Ridge decided to send one of its own managers to oversee the Spanish joint venture. Under pressure, Rodrigo began to ignore criticism about the company's lack of growth. On one occasion, Rodrigo decided to close the Blue Ridge offices for an entire month just as Blue Ridge's international director of finance arrived in Barcelona to develop a five-year strategic plan.[3]

Terralumen finally replaced Rodrigo with a more proactive manager who had just returned from a successful assignment in Venezuela. Under the new leadership of Carlos Martin, Blue Ridge Spain began to prosper. Soon everyone was occupied with the difficult task of acquiring new sites, as well as recruiting and training employees.

COSTAS RETURNS TO EUROPE

In late 1998, Costas was transferred from Singapore to London to resume the role of European managing director. The previous director had performed poorly and it was felt that Costas had the experience needed to repair damaged relations with

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[2]*Catalonia, a state in northeast Spain, had a distinct culture and language (Catalan).*
[3]*In Spain, the month of August was traditionally set aside for vacations.*

some of Blue Ridge's Middle Eastern joint venture partners. By this time, Blue Ridge had more than 600 stores in Europe and the Middle East.

One of Blue Ridge's more lucrative joint ventures was in Kuwait. However, the partners were threatening to dissolve the enterprise after the previous managing director became upset that the Kuwaitis were not meeting growth targets. The partners were especially concerned when they discovered that he had begun to seek other potential partners.

Costas decided to schedule a visit to Kuwait in early January. The partners counselled against the visit since Costas would be arriving during Ramadan,[4] and therefore would not be able to get much work done. Nevertheless Costas went to Kuwait, but spent nearly all of his time having dinners with the partners. He recalled:

> Most American managers would have considered my trip to be a waste of time, since I didn't get much "work" done. But it was a great opportunity to get to know the partners and to re-establish lost trust, and the partners felt good about having an opportunity to vent their concerns.

Costas returned to London confident that he had reassured the Kuwaiti partners that Blue Ridge was still committed to the joint venture.

Costas was also happy to be working with his old friend Alvarez again, as the two began working on an ambitious plan to develop a total of 50 stores by 2002 (see Exhibit 2).[5] As Blue Ridge Spain continued to grow, stores were opened in prime locations such as the prestigious Gran Via in Madrid and Barcelona's famous Las Ramblas shopping district. Costas and Alvarez, both of whom had been involved from the beginning of the joint venture, were delighted to see how far the company had come.

EUROPEAN REORGANIZATION

Delta began to take a more direct and active role in the management of Blue Ridge. In Europe, for example, Delta created a new regional VP position with responsibility for Europe, the Middle East and South Africa. When Costas became aware of the new position, he asked whether or not he was being considered, given his extensive experience in managing international operations. The human resources department in the United States explained that they wanted to put a

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[4] Ramadan is the holy month of fasting ordained by the Koran for all adult Muslims. The fast begins each day at dawn and ends immediately at sunset. During the fast, Muslims are forbidden to eat, drink or smoke.
[5] The plan to develop 50 stores was agreed to in 1998, prior to Costas' arrival.

seasoned Delta manager in place in order to facilitate the integration of the two companies.

Although disappointed, Costas understood the logic behind the decision. He also considered that by working under a seasoned Delta manager, he could develop contacts in the new parent company that might prove favorable to his career at some future date.

In May 1999, Costas received a phone call from Bill Sawyer, Blue Ridge's director of human resources, whom Costas had known for many years.

Sawyer: We hired someone from Proctor and Gamble. He's 35 years old and has a lot of marketing experience, and he worked in Greece for three years. You'll like him.

Costas: That's great. Have your people found anyone for the VP job yet?

The line was silent, then Sawyer replied in an apologetic tone, "He *is* the new VP." Costas was dumbfounded.

Costas: I thought you said you were planning to transfer a Delta veteran to promote co-operation.

Sawyer: Nobody from Delta wanted the job, so we looked outside the company. Kinsley (president, international division) wanted a "branded" executive, so we stole this guy from P&G.

Sawyer went on to explain that Mikael Södergran, who was originally from Finland, had no background in restaurant management, but had achieved a reputation for results in his previous role as a P&G marketing manager for the Middle East and Africa. He had recently been transferred from Geneva, Switzerland to P&G European headquarters in Newcastle upon Tyne.[6] Södergran was not happy in Newcastle and saw the Delta position both as an opportunity to take on greater responsibility and to move back to the civilization of London.

"You couldn't find anyone better than *that*?," Costas exclaimed. He was furious, not only for having been deceived about the need to have a Delta manager as VP, but also that he, with 10 years experience managing international operations, had been passed over in favor of someone with no experience managing operations, joint ventures or a large managerial staff. Nevertheless, the decision had been made, and Södergran was scheduled to start in two weeks.

[6] Newcastle upon Tyne, United Kingdom, was an important industrial and transportation center located in northeast England (approximately 3 hours from London). It had a population of 263,000 (1991 census).

THE DIRECTORS' MEETING

It was Södergran's first day on the job when he met with Blue Ridge Spain's board of directors to discuss a recently drafted consultants' report and negotiate new five-year growth targets (see Exhibit 3). The study, which was conducted by a leading U.S.-based management consulting firm, projected significant expansion potential for Blue Ridge in Spain, as well as in France and Germany, where Blue Ridge had no visible presence.[7] Delta also wanted to increase the royalties and fees payable from the joint venture partner in order to cover the cost of implementing new technologies, systems and services (see Exhibit 4).

Other Blue Ridge managers at the meeting included Yannis Costas and Donald Kinsley, Blue Ridge's new international president. Although Kinsley had formerly been president of a well-known family restaurant chain in the United States, this was his first international experience. Terralumen was represented by company president Andres Balaguer, Francisco Alvarez and Carlos Martin, Blue Ridge Spain's managing director.

Even before the meeting began, Delta's management team assumed that Terralumen was content to keep growth rates at their current levels and would have to be pressed to accept more aggressive targets. As expected, Martin protested that his team of 10 managers could not handle the introduction of 30 new stores a year, as suggested by the study. The meeting's cordial tone quickly dissolved when Södergran unexpectedly began to press the issue. His aggressive stance was not well received by Terralumen, who in turn questioned the ability of the consulting firm's young freshly minted American MBAs to understand the intricacy of the Spanish fast-food market. Balaguer simply brushed off the study as "a piece of American business school cleverness."

Södergran became visibly annoyed at Balaguer's refusal to consider Delta's targets. "The contract says that you are required to grow the markets," Södergran demanded. Balaguer, a tall, elegant man, slowly stood up, lifted a sheaf of papers and replied, "If this is your contract, and if we rely on a contract to resolve a partnership problem, well, here is what I think of it and of you." He walked across the room and dropped the papers into a garbage can. Then upon returning to his seat, he remarked in Spanish, "If this meeting had been conducted in my language, you would have known what I *really* think of you," in reference to Södergran.

After a long pause, Costas tried to mend the situation by pointing out that Terralumen had already committed to considerable growth, and had therefore already come some way toward Delta's expansions goals. He suggested that the two companies break to consider alternatives.

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[7]Large restaurant chains served only four per cent of fast food meals in Spain, compared with 15 per cent for the rest of Western Europe, and 50 per cent for the United States.

A few weeks later, Costas sent an e-mail to Södergran outlining his recommendations (see Exhibit 5).

EMERGING CONFLICTS

Costas tried his best to keep an open mind with regard to Södergran and to support him as best he could. However, as time went on, Costas began to seriously question Södergran's ability. He never seemed to interact with anyone except to conduct business. On one occasion Costas suggested that they have dinner with the joint venture partners. Södergran replied, "Oh, another dinner! Why don't we get some work done instead?"

Costas became more concerned after Södergran rented a suite two floors below the company offices "in order to have some peace and quiet." Some of the regional headquarters staff began to wonder if Södergran had taken on too much responsibility and whether he was avoiding them because of the pressure he was under. Costas also believed that Södergran was uncomfortable with him, knowing that he resented not being offered the VP position.

In October 1999, Delta sent a finance manager from the snack foods division to become the company's new VP of finance for Europe. Geoff Dryden had no overseas experience, but when he was in the United States, he had been involved in several large international acquisitions. Dryden, who was originally from North Carolina, was pleasant, well polished in his manners and dress, and very proud of his accomplishments at Delta. For him, the European assignment was an opportunity to move out of finance and, if all went well, to assume greater managerial responsibilities.

Costas, who had specialized in finance when doing his MBA, had always done his own financial projections and was not very fond of the idea of surrendering this responsibility to someone else. Still, he helped Dryden as much as needed to make accurate projections, taking into account the unique aspects of each market.

A NEW STRATEGY

Over the next six months, the joint venture board of directors met four times. In the end, Terralumen committed to half the growth rate originally proposed by Delta and agreed to make upward revisions if market conditions proved favorable. Delta's managers were clearly becoming frustrated by what they perceived to be their partner's entrenched position.

After the final meeting, Södergran and Costas met with their European staff to discuss the results. Dryden asked why they put up with it. "Why don't we just buy them out?" he asked, calling to mind Delta's successful acquisition of a Spanish snack food company. Costas reminded Dryden that not only were snack foods and restaurants two very different enterprises, but all the joint venture managers had come from Terralumen, and most would leave Blue Ridge if Delta proceeded to buy out the partners.

After the meeting, Dryden discussed the situation privately with Södergran. Noting that a major loan payment would soon be due to one of their creditors (a major Spanish bank), Dryden suggested holding back Delta's contribution, thereby forcing the joint venture company to default on the loan. If all went according to plan, the joint venture would have to be dissolved and the assets divided between the partners. This, he noted, would be much less expensive than trying to buy out their partner.

As expected, Terralumen requested matching funds from Delta, but Dryden simply ignored the request. However, unbeknownst to Dryden or anyone else at Delta, Alvarez proceeded to sell one of the company's prime real estate properties and lease back the store as a means of paying the loan.

Costas happened to be in Barcelona working on Blue Ridge Spain's marketing plan with Carlos Martin. One evening, Costas was dining with his counterparts from Terralumen when Alvarez mentioned the sale of the company's Barcelona property. Costas, who at the time was unaware of Dryden's strategy, was dismayed. Real estate values in Barcelona were expected to appreciate significantly over the short term. Selling now seemed illogical. Furthermore, Costas was surprised to discover that Alvarez had been given power of attorney to make real estate transactions on behalf of the joint venture. Alvarez explained:

> Quite a few years ago, when you were in Singapore, Blue Ridge decided to give Terralumen this authority in order to reduce the amount of travel required by your managers in the United States. Besides, as you know, it is not often that good properties become available, and when they do, we must act quickly.

On his return to London, Costas discussed the real estate transaction with Dryden, who, upon hearing the news, furiously accused Costas of "siding with the enemy." Costas was quick to remind Dryden that he had not been privy to the dissolution strategy and, besides, the whole thing was unethical. Dryden retorted, "Ethics? Come on, this is strategy, not ethics!"

Dryden was clearly surprised by the news, especially given the fact that Delta would never have given such powers of attorney to a joint venture partner. The company's lawyers could have warned Dryden, but he had not been very fond of the "old hands" at Blue Ridge's legal affairs department, and therefore had chosen to not disclose his plan. Now that his strategy had failed, an alternative plan would have to be devised.

Costas felt torn between his responsibility to his employer and his distaste for the company's new approach. This whole thing was a mistake, he believed. Costas discussed his views with Södergran:

> We cannot hope to take over the stores in Spain while simultaneously developing new markets in Germany and France. Where are we going to find suitable managerial talent to support this expansion? People in Europe don't exactly see the fast-food industry as a desirable place to grow their careers. And besides, Delta hasn't given us sufficient financial resources for such an undertaking.

Why don't we focus on France and Germany instead, and continue to allow Terralumen to run the Spanish operation? Revenue from Spain will help appease Delta headquarters while France and Germany suffer their inevitable growing pains. In the meantime, we can continue to press Terralumen for additional growth.

Södergran dismissed these concerns and instead gave Costas two weeks to develop a new dissolution strategy. Costas was furious that all his suggestions were so easily brushed off by someone who, he believed, had a limited understanding of the business.

On his way home that evening Costas recalled all the effort his former mentor, Gene Bennett, had put into the joint venture 16 years earlier, and all the good people he had had the privilege to work with in the intervening years. Just as all that work was about to pay off, the whole business was about to fall apart. Why hadn't he seen this coming? Where did the joint venture go wrong? Costas wondered what to do. Surely he had missed something. There had to be another way out.

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Exhibit 1

TIMELINE

Year	Blue Ridge Restaurants	Yannis Costas
1959	Company founded in Virginia	
1974	Blue Ridge Sold for $4 million	
1975-1980	96 per cent annual growth	Leaves Greece to study in United States
1981	Blue Ridge sold for $420 million	
1982	International expansion	Completes his BS in United States
1983	Begin negotiations for JV in Spain	
1984		Completes MBA and is hired by Blue Ridge; moves to Virginia
1985	JV agreement with Terralumen S.A.	Applies for transfer to International Div.
1986	Rodrigo appointed managing director of Blue Ridge Spain	
1987	Company pulls out of France, Brazil, Hong Kong and Italy	
1988		Promoted to European regional director; moves to London
1988-1993	Spanish JV grows slower than expected	
1993	U.S. manager sent to oversee Spanish JV	Transfer to Singapore
1995	Rodrigo replaced by Carlos Martin	
1996	Blue Ridge sold to Delta for $2 billion	
1995-1998	Spanish JV grows more rapidly	
1998	5-year plan for 50 restaurants in Spain, Blue Ridge has 600 stores in Europe/ME	Costas asked to return to London
Jan. 1999		Rescues JV in Kuwait
May 1999	Södergran hired as Delta VP for Europe	
June 1999	Directors meeting for Spanish JV	
December 1999	Dryden withholds Delta payment to JV; Alvarez sells prime Barcelona property	
January 2000		Asked to develop dissolution strategy for Spain

Exhibit 2

DEVELOPMENT PLAN AGREED BETWEEN BLUE RIDGE RESTAURANTS AND TERRALUMEN
(as of December 1998)
(in 000s U.S. dollars)

	1998	2000	2001	2002	2003	2004
No. of Stores	12	24	37	50	65	80
Avg. Annual Sales	700	770	847	932	1,025	1,127
Gross Sales	$8,400	18,480	31,339	46,600	66,625	90,160
Cost of Goods Food	1,680	3,322	5,474	8,141	11,639	15,770
Cost of Goods Direct Labor	1,680	3,323	5,641	8,374	11,646	15,766
Advertising/Promotion	504	1,109	1,880	2,796	3,998	5,410
Occupancy Costs	1,260	1,848	3,129	4,660	6,663	9,016
Fixed Labor	840	1,478	2,507	3,728	5,330	7,213
Miscellaneous	168	277	470	699	999	1,352
Royalties to Blue Ridge U.S.	420	924	1,560	2,330	3,331	4,508
Total Costs	6,552	12,281	20,662	30,728	43,606	59,035
Contribution to G&A	1,848	6,199	10,677	15,872	23,019	31,125
Salaries and Benefits	875	1,531	2,641	3,493	4,580	5,899
Travel Expenses	120	240	300	375	469	586
Other	240	312	406	527	685	891
Occupancy Costs	240	720	828	952	1,095	1,259
Total G&A	1,475	2,803	4,175	5,347	6,829	8,635
Earnings Before Interest/Tax	$ 373	3,396	6,502	10,525	16,190	22,490
% of Gross Sales	4.44	18.38	20.75	22.59	24.30	24.94
Office Employees (Spain)	10	20	30	35	40	45

Notes:

- *This plan was agreed before Yannis Costas' appointment to Blue Ridge Europe in late 1998.*
- *End 2004 plan: 20 stores in Barcelona, 30 in Madrid, 30 in other cities*
- *Capital Investment per store $700,000 to $1 million*
- *Site identification, lease or purchase negotiation, permits, construction: 18 to 24 months. Key Money is a part of occupancy costs. It is a sum paid to property owner at signing; varies by site $100,000 plus. Up to 1999, many owners wanted Key Money paid off the books, often in another country.*
- *Store Staffing (at the average sales level):*
  - *One manager, two assistants full time (larger stores three to four assistants)*
  - *10 to 12 employees per eight-hour shift (40 hours per week); 980 employee hours per week*
- *Store employees needed by end of 1999: 300; by the end of 2004: 2,250 (approx.)*
- *Store employee attrition: approximately 25 per cent per year*
- *Dividends from earnings were declared periodically and then were shared equally between partners.*

Source: Company files.

Exhibit 3

CONSULTANTS' RECOMMENTATIONS
BLUE RIDGE EUROPEAN EXPANSION (SELECTED MARKETS)

	1998	2000	2001	2002	2003	2004
Stores						
Spain	12	30	65	100	135	170
France	0	10	20	55	90	130
Germany	3	15	30	65	100	150
Total	15	55	115	220	325	450
Regional Managers (London)	1	15	20	22	24	26
Country Staff/Managers	12	40	90	180	220	250
Store Employees	215	1,650	3,450	6,600	9,750	13,500

Source: Company files.

Exhibit 4

BLUE RIDGE SPAIN
EXCEPTIONAL TERM HIGHLIGHTS

	Blue Ridge U.S. Desired Objective	Blue Ridge Spain - Variance
Joint Venture Outlets		
Royalty	At least 4 per cent	No royalty
Fees	$20,000	$5,000
Term	10 years	5 years
Exclusivity	Avoid exclusivity	Spain, Canary Islands, Spanish Sahara, Beleares Islands
Advertising	5 per cent, right of approval	No obligations
Outlet Renewal Requirements	Renewal fee at least $2,000; Upgrading or relocation	No fee or other specific requirements
Delta Products	Required	No requirement
Development Program	Schedule for required development of territory	No requirement
Non-Competition	Restrictions on similar business	No provision
Assignment	First refusal right; approval of assignee	No provision
Sub-Franchising		
Contract privity	Blue Ridge U.S. should be a party and successor to franchisor	Blue Ridge cited; Blue Ridge succeeds on JV dissolution
Royalty	At least 4 per cent	None
Fees	$20,000	None
Joint Venture Operation		
Equity Participation	More than 50 per cent	50 per cent
Profit Distribution	At least 50 per cent	Additional 20 per cent when profits are greater than 20 per cent
Actual Management	Blue Ridge U.S. should appoint General Manager	General Manager is from JV partner
Board Control	Blue Ridge U.S. should have majority	Equal number of board members

Source: Company files.

Exhibit 5

COSTAS' RECOMMENDATIONS

From: Yannis Costas [Costas@deltafoods.co.uk]
Sent: Wednesday, July 7, 1999 10:16 AM
To: 'Sodergran@deltafoods.co.uk'
Subject: Key Issues – Here is what I believe we should be going for in Spain.

Mikael:
Here are my recommendations for Spain.

A. PRESERVE PARTNERSHIP
- Need a "real" market success while developing markets elsewhere in Europe.
  - Fuel interest of potential partners elsewhere.
  - Keep Blue Ridge and Delta believing in European potential.
  - Market for real testing of concepts and ideas.
  - No complete reliance on UK for "successes."

B. REVERSAL NOT EASY TO OVERCOME
- May have to pay a high premium to buy out joint venture.
- Will lose all key managers (no substitutes on hand)
- If we inherit "green field"
  - Down time close to 2 years.
  - Why? From decision to opening will take approximately nine months to one year.
  - In a new market this will be longer as we have no human resource experience to draw on.
  - Potential new partners need to be convinced about why we broke up with a "good" partner.
  - Real estate market does not want to deal with foreigners or raises the price.
- If the divorce is messy, we may be bound by the current contract for another year.

C. WORK TOWARDS ACHIEVING ACCEPTABLE INTEGRATION WITH OUR DESIRABLE CONTRACT FRAMEWORK OVER CURRENT DELTA PLANNING HORIZON (5 YEARS)
- Strong development schedule for joint venture.
- Royalty integration over mutually acceptable period.
- Designated "agency" for franchisees immediately, but fee flow indirectly to Blue Ridge only the amount over current terms with existing franchisees. Phase-in higher flow on schedule similar to royalties.
- Accept the notion of phasing in royalties as we phase in systems and services (If we don't phase them in there won't be much of a business anyhow!)

D. KEY RATIONALLE
- We may have the perfect contract, but no stores to apply it to for three years – hence no income to cover overheads. SO…
- Accept half the current growth targets with the full expectation that by year 3 or 5, there will be a decent system for the contract's objectives to be meaningful.

Appendix 1

MANAGEMENT STYLES FOR SELECTED NATIONALITIES[1]

Spain

In Spain, a strong differentiation of social classes and professional occupations exists. Business communication is often based on subjective feelings about the topic being discussed. Personal relationships are very important as a means to establish trust, and are usually considered more important than one's expertise. Established business contacts are essential to success in Spain. Therefore, it is important to get to know someone prior to conducting business transactions. Only intimate friends are invited to the home of a Spaniard, but being invited to dinner is usual.

Spaniards are not strictly punctual for either business or social events, and once a business meeting is started, it is improper to begin with a discussion of business. National pride is pervasive, as is a sense of personal honor. To call someone "clever" is a veiled insult. Only about 30 per cent of local managers speak English, while French is often the second language of choice for many older Spaniards.

Greece

Greek society employs a social hierarchy with some bias against classes, ethnic groups and religions. For Greeks, interpersonal relationships are very important when conducting business, and decisions are often based on subjective feelings. Much importance is placed on the inherent trust that exists between friends and extended families. Authority lies with senior members of any group, and they are shown great respect. They are always addressed formally.

While punctuality is important, it is not stressed. Greeks have a strong work ethic and often strive for consensus.

United States

Americans are very individualistic, with more stress placed on self than on others. Friendships are few and usually based on a specific need. Personal contacts are considered less important than bottom line results. Americans have a very strong work ethic, but a person is often considered to be a replaceable part of an organization. Great importance is placed on specialized expertise. Punctuality is important.

Business is done at lightning speed. In large firms, contracts under $100,000 can often be approved by a middle manager after only one meeting. Often companies and individuals have a very short-term orientation and expect immediate rewards. Small talk is very brief before getting down to business, even during dinner meetings and social gatherings.

Finland

Finns have a strong self orientation. More importance is placed on individual skills and abilities than on a person's station in life. Decisions are based more on objective facts than personal feelings. Privacy and personal opinions are considered very important. Finns often begin business immediately without any small talk. They are very quiet and accustomed to long periods of silence, but eye contact is important when conversing. Authority usually rests with the managing director. Punctuality is stressed in both business and social events.

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[1]Based on Kiss, Bow, or Shake Hands: How to do Business in Sixty Countries, Adams Media, 1994. The descriptions do not account for individual differences within each nationality or culture.